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E.O. 12958, Sec. 3.4

NIID 969012

By SD7/V8W Date 10/16/98



DEPARTMENT OF STATE  
INFORMATION MEMORANDUM

7120223

S/S

To: The Secretary

Through: U - The Under Secretary

From: AF - C. Robert Moore  
E - Julius L. Katz  
EUR - Martin J. Hillenbrand

18 December 1971

British Request for US Support Regarding  
the Libyan Nationalization of British  
Petroleum (BP)

Background:

On December 7, the Libyan Government nationalized BP's Libyan subsidiary, but the decree did not include BP's 50 percent American partner, Bunker Hunt. Bunker Hunt is trying to cooperate with the Libyans to the extent of keeping production going but has refused a Libyan request that it market the ex-BP share of the oil as well as its own. The Department has agreed to support the request of the American oil companies operating in Libya for a business review letter from the Department of Justice that will allow them to act in concert in support of BP, which intends to take legal action against any purchasers of oil from its concessions.

On December 10, the British Government requested US support for its demarches to major oil consuming countries, and for a press statement by us deploring the use of nationalization as a political weapon. The request for a press statement was subsequently withdrawn. The British intend to request governments of consuming countries not to purchase oil from the nationalized concession and further to use their influence to dissuade their oil companies from purchasing such oil.

AF/N: RH Petroleum; E/ORF/FSE

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Discussion:

Several considerations weighed against our supporting the British demarches. The Libyan action against BP occurred at a time of rising Libyan frustration over long unsettled claims against the British (former British base rights, a cancelled air defense system contract, non-delivery of Chieftain tanks) which were purely bilateral in nature and had nothing to do with the United States. It carefully avoided action against any US companies in Libya, including BP's American partner. Any US Government action in support of BP or the British which became known to the volatile and unpredictable Libyan Government could precipitate Libyan retaliation against American interests in Libya. Moreover, the American oil companies had not asked us to take any action with regard to the nationalization beyond supporting their request for a business review letter. The British, with no substantial interests left in Libya, would have little to lose in fighting the nationalization to the end; the United States would be risking a great deal in supporting such an all-or-nothing policy. It was also argued that our support for the British demarche would have very little if any real effect on consuming governments. Nor would any British or combined British-US action to foreclose the market ever induce the nationalistic Libyans to reverse their nationalization and return the concession to BP.

On the other hand, if the Libyans followed up their nationalization of BP with successful marketing of the oil to OECD members, it would inevitably weaken our own interests in Libya as well as other oil producing states. Failure by the OECD, and particularly the US, to support the British in this instance would compromise, perhaps fatally, the common front through which the consuming countries and the oil companies hope to blunt the OPEC drive for higher oil prices and eventual control of the companies. To the degree that the Libyans' nationalization could be made difficult, it would serve to inhibit further such actions. By supporting the British and maintaining some measure of consumer state solidarity, we would in effect be supporting our own interests through the oil companies' joint front tactics vis-a-vis OPEC.

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Conclusion and Action:

On balance, the long range consequences of not supporting the British seemed likely to be more serious than the immediate risk of provoking Libyan Government action against our interests there. Moreover, the Senior Review Group discussions on expropriation consistently favored steps to organize consumer state solidarity in resistance to nationalizations. Our maintenance of a common front now on Britain's behalf should also be useful to us in other future contexts, such as the Chilean nationalizations.

We have accordingly agreed to instruct our embassies in OECD capitals to support quietly the British demarches, urging the OECD governments to use their influence with their national oil companies and refineries not to accept BP's nationalized oil.

 Drafted: AF/N:RHPelletreau:E/ORF/FSE:GSEBrown:pw-  
12/17/71 x22622

Concurrences: AF/N - Mr. Odell  
AF - Mr. Smith  
E/ORF/FSE - Mr. Akins  
L - Mr. Brower  
EUR/BMI - Mr. Griffith